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UNCLAS HALIFAX 000199

SIPDIS

DOE FOR POLICY AND INT'L (PUMPHREY AND DEUTCH)
EB/ESC/IEP/ESC FOR MCMANUS AND ERVITI
FOR WHA/CAN

E.O. 12958: N/A

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SUBJECT: ATLANTIC CANADA: TWO LNG PROJECTS EYE NEW ENGLAND MARKET

REF: HALIFAX 040

11. SUMMARY: The conditional approval of two LNG projects in Atlantic Canada, could substantially increase gas supplies in the U.S. northeast. Irving Oil and Access Northeast both say when their respective projects become operational in 2007, they will produce as much as two billion cubic feet per day of natural gas, the bulk of which will be destined for the United States.
END SUMMARY

12. New England could see substantially increased supplies of natural gas from Atlantic Canada now that federal and provincial regulatory bodies have approved two liquefied natural gas (LNG) projects. On August 6, Irving Oil of Saint John New Brunswick, part of the Irving family business empire, announced it had received regulatory approval for its proposed LNG terminal. The Irving project, the first of several LNG projects currently proposed for Northeastern North America to get the green light, will be situated at the company's existing Canaport deepwater marine terminal near Saint John, and 65 miles from the Maine-New Brunswick border.

13. Under the proposed plan, Irving will import natural gas by tanker in a liquid state, then warm it back into a gas. The gas would then be transmitted through the existing Maritimes and Northeast Pipeline (M&NEP) which currently transports gas from offshore Nova Scotia to New England and the relatively small regional market in Atlantic Canada. The expected capacity of the Irving terminal would be as much as one billion cubic feet of natural gas per day once it becomes operational in 2007. Although there could be some increased local demand for the gas, the bulk of the output would be destined for the Northeastern U.S. market.

14. The second approved LNG proposal is that planned by Access Northeast Energy Incorporated (ANEI) which wants to develop a terminal in the Strait of Canso at Bear Head, Nova Scotia, approximately 140 miles north of Halifax. ANEI, a privately-owned Canadian company, received its approval on August 9 for a project similar to Irving's in that it would involve shipping gas to a marine terminal, converting it and sending it over the M&NE pipeline. Like the Irving proposal, the output from the Bear Head project could be as much as one billion cubic feet per day, with the project also coming on stream by 2007.

15. Both projects will still have some hurdles to cross. For Irving, its approval from the government of New Brunswick comes with 24 conditions, primarily environmental and safety-based, but Irving officials believe they will have no difficulty in meeting these requirements. ANEI will also have to satisfy similar environmental conditions dictated by the government of Nova Scotia. On the economic side, M&NEP would have to expand its pipeline capacity to handle what could be as much as two billion cubic feet a day that the two plants would produce. Pipeline officials have already said that they would be eager to look at expansion proposals. Also, both Irving and ANEI will have to get signed contracts for supplies of LNG and also firm up marketing contracts.

16. COMMENT: The approval of these two Atlantic LNG projects may be the first of several. While some analysts believe that the North American market can definitely sustain more than two LNG plants in the region, others doubt that more LNG terminal projects in Nova Scotia would be economically viable. For now, all eyes are on Irving and ANEI to see just how difficult it will be for these first two projects to arrange financing and get up and running. Irving has tried to steal a march on rivals and gain the advantage of being first into the market. Given a relatively cooperative relationship with regulators in New Brunswick, its project may be able to come on stream faster than ANEI. END COMMENT

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